

Message Text

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ACTION COME-00

INFO OCT-01 NEA-10 ISO-00 EB-11 SS-20 FAA-00 CIAE-00

INR-10 NSAE-00 RSC-01 EUR-25 DRC-01 /079 W

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R 231300Z DEC 73

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 5743

INFO AMCONSUL DHAHRAN

AMEMBASSY BEIRUT

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BEIRUT FOR RCAA

E.O. 11652: N/A

TAGS: BMEP, SA

SUBJECT: MAJOR PROJECT: NEW JIDDA AIRPORT

REF: (A) STATE 247373, (B) JIDDA 5457

1. BEGIN SUMMARY: BROWN AND ROOT'S WISH TO ATTEMPT TO POSTPONE ESCALATION CLAUSE ISSUE MAY RESULT IN A) REDUCING THEIR FLEXIBILITY IN POST-BID OPENING NEGOTIATIONS, AND B) OFFER ADVANTAGES TO THEIR COMPETITORS. REQUEST COMMERCE TAKE ONE MORE READING OF B AND R'S PREFERENCE, BASED ON POINTS MADE BELOW.
END SUMMARY

2. EMBASSY APPRECIATES BROWN AND ROOT'S PREFERENCE TO POSTPONE DISCUSSION OF ESCALATION CLAUSE UNTIL CONTRACT NEGOTIATIONS. IN VIEW OF LIMITED TIME LEFT, IT IS DOUBTFUL THAT FINAL DETERMINATION OF ESCALATION CLAUSE WILL BE MADE BEFORE BID OPENING IN ANY EVENT. HOWEVER, FEEL IT WILL BE USEFUL TO USE REMAINING TIME TO PRE-DISPOSE NASSIEF TOWARD THAT METHOD MOST USEFUL TO AMERICAN FIRM. IF NOTHING ELSE, AS NOTED IN REF. B, THREAT OF TYING ESCALATION CLAUSE TO U.S. PRICE INDICES
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WHOULD FORCE EUROPEAN BIDS HIGHER.

3. AT PRESENT NASSIEF SEEMS INCLINED TOWARD ITALIAN SYSTEM DESCRIBED REF. B, SIMPLY BECAUSE IT IS ONLY CONCRETE SYSTEM HE HAS TO WORK WITH. (RE PARA. TWO, REF. A, THERE HAS BEEN NO SUGGESTION THAT ITALIAN INDICES BE USED, ONLY THE ITALIAN SYSTEM, WHICH IS EQUALLY ADAPTABLE TO ANY INDEX SERIES.) WE HAVE THREE OPTIONS AT PRESENT: A) ATTEMPT TO INFLUENCE NASSIEF TO DESIGNATE ITALIAN SYSTEM, WITH U.S. INDICES APPLIED. THIS SHOULD STILL NOT PRECLUDE POSSIBLE RENEGOTIATION OF DIFFERENT SYSTEM OF ESCALATION CLAUSE ONCE CONTRACT HAS BEEN AWARDED. B) URGE NASSIEF TO POSTPONE QUESTION OF ESCALATION CLAUSE TO POST-BID OPENING NEGOTIATIONS. THIS WOULD ALLOW EUROPEAN BIDDERS TO COMPETE ON MORE EQUAL FOOTING. C) PROPOSE TO NASSIEF AN ALTERNATIVE SYSTEM ACCEPTABLE TO B AND R. IN THIS REGARD, NASSIEF STRONGLY WISHES TO AVOID SYSTEM WHICH WOULD REQUIRE EXTENSIVE AUDITING OF CONTRACTOR'S EXPENSES.

4. IF B AND R STILL WANTS US TO STICK BY OPTION B, WE WILL OF COURSE OBLIGE; BUT THEY SHOULD UNDERSTAND THAT THEY WILL THEREBY BE CEDING POINTS TO THEIR COMPETITORS. WE UNDERSTAND PITFALLS OF TYING CLAUSE TO U.S. INDICES, ALTHOUGH O'SULLIVAN'S EXAMPLE OF INCREASED SHIPPING COSTS DOES NOT APPLY. THIS WAS ONE OF THE SPECIFIC POINTS DISCUSSED IN DEC. 9 MEETING WITH NASSIEF. UNDER ITALIAN METHOD, SHIPPING COSTS COULD BE EXPLICITLY BROKEN OUT AS COMPONENT OF TOTAL BID, AND INTERNATIONAL CONFERENCE RATES FOR JIDDA PORT USED FOR APPLICABLE INDEX. THIS ILLUSTRATES FACT THAT NASSIEF IS NOT SEARCHING FOR MAGIC FORMULA, SIMPLY A REASONABLY SIMPLE SYSTEM PEGGED BY EASILY AND INDEPENDENTLY DETERMINED INDICATORS OF COST INCREASES. IF ESCALATION CLAUSE B AND R INTEND TO PROPOSE IS SUBSTANTIALLY MORE COMPLEX TO ADMINISTER AND AUDIT THAN ITALIAN SYSTEM, THEY WILL HAVE GREAT DIFFICULTY IN GETTING IT ACCEPTED.

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